

AGENDA ITEM: 8

Page nos. 48-90

Meeting	Audit Committee
Date	28 June 2007
Subject	Annual Audit & Inspection Letter 2005/06 & Audit & Inspection Plan 2007/08
Report of	Deputy Director for Resources & Chief Finance Officer
Summary	This report advises the Committee of the Audit Commission report on the 2005/06 Audit of Accounts and Inspection and the Audit Commission's Audit and Inspection Plan for 2007/08.

Officer Contributors	Jonathan Bunt, Head of Strategic Finance
Status (public or exempt)	Public
Wards affected	Not applicable
Enclosures	Appendix A – Annual Audit and Inspection Letter 2005/06 Appendix B – Audit and Inspection Plan 2007/08
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	None

Contact for further information: Jonathan Bunt, Head of Strategic Finance on 020 8359 7249

1. RECOMMENDATIONS

- 1.1 That the Audit Commission Annual Audit & Inspection Letter for 2005/06 be accepted as a reasonable statement on the Council's position in respect to financial standing, and financial and performance management arrangements.
- 1.2 That the Committee consider whether there are any areas on which they require additional information or action.
- 1.3 That the Committee note the Annual Audit & Inspection Plan for 2007/08.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Annual Audit and Inspection Letter addresses fundamental aspects of financial standing and performance management in Barnet, which relate to the Council's 'More Choice, Better Value' priority.

4. RISK MANAGEMENT ISSUES

- 4.1 The Annual Audit and Inspection Letter has many positive things to say about the Council, but highlights areas of weakness that must be addressed over the coming year.

5. EQUALITY AND DIVERSITY ISSUES

- 5.1 The Annual Audit and Inspection Letter covers the inspection and assessment of all services within the authority which, in turn, impact on all members of the community.
- 5.2 Within the letter, the External Auditor highlights the update of the Council's Race Equality Scheme and its attempts to promote social cohesion.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 This report deals with the Council's financial standing. The external auditor's recommendation on balances should be noted.

7. LEGAL ISSUES

- 7.1 The relevant statutory provisions are referred to in the body of the report and in both the Annual Audit and Inspection Letter and Annual Audit Plan.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution Part 3, Section 2 details the functions of the Audit Committee including "To consider the external auditor's annual letter" and "To comment

on the scope and depth of external audit work and to ensure it gives value for money”.

9 BACKGROUND INFORMATION

- 9.1 The purpose of the Annual Audit and Inspection Letter is to summarise the conclusions of and significant issues identified by the Council’s External Auditor, RSM Robson Rhodes, during their audit and inspection.
- 9.2 The External Auditor is expected to attend the Committee meeting to introduce his report and respond to questions. In the meantime, this covering report extracts the key messages from within the Annual Audit and Inspection Letter 2005/06, which is attached.
- 9.3 The following is drawn to the attention of the Committee:
 - 9.3.1 The Statement of Accounts were given an unqualified audit opinion.
 - 9.3.2 The Council has been successful in addressing the majority of recommendations raised in the previous year, which is shown by the Council’s move from a 2 star authority to an overall 3 star authority under the Comprehensive Performance Assessment (CPA) framework and it is further assessed as ‘improving well’.
 - 9.3.3 Performance has been sustained across five out of the six service blocks which form part of the overall CPA framework, demonstrating continued consistency in performance.
 - 9.3.4 Housing along with Social Care for Adults are the only two service blocks which perform adequately overall and as a 3 star authority with a view to improving, the planned improvements already in place need to be monitored to ensure the Council delivers in line with its expectations and community needs.
 - 9.3.5 With regard to the ‘adequate’ performance of Social Care for Adults, the Council has been acknowledged to support a diverse community and some clear improvements in relation to adults with learning disabilities have been identified. A strategic plan for further developments to shift the balance of care to more community-based provision is also in place.
 - 9.3.6 Areas of concern in the previous Annual Audit and Inspection Letter, namely Human Resources & Payroll and Adult Social Services, have been recognised to have sufficiently improved within their performance management arrangements.
 - 9.3.7 The Council has continued to strengthen its use of resources in all areas in particular with regard to the adequacy of General Fund balances, improvements to the control environment and the enhancement of data quality.
 - 9.3.8 Overall almost two-thirds of performance indicators improved in 2005/06 and performance in priority areas, such as education, children’s services and

recycling, has continued to improve.

9.3.9 Value for money is stronger with identified savings and efficiencies and clear links between investment in priorities and outcomes.

9.3.10 The Council has been recognised as having strong and clear ambitions based on a good understanding of community views and needs. It also has a clear shared vision and plan for 2006/2016 to build 'A First Class Suburb' and the strategic vision for the Council is well embedded at a senior level and is publicised widely.

9.3.11 The Council has a strong and integrated approach to economic development, regeneration, housing and local environment and its ambitions include radical improvements for more deprived communities.

9.3.12 In the instance of targets being missed, the framework is further weakened by a lack of public monitoring and regular scrutiny and challenge by councillors. The role of scrutiny in securing value for money from local services is underdeveloped.

9.3.13 The focus for the forthcoming year has been identified as ensuring that all improvement areas are maintained so as to demonstrate them as being embedded within the Council as part of the culture of the organisation. The steady progress in achieving adequate General Fund balances also need to be maintained through the forthcoming years.

9.4 Also attached, for Members information, is the Audit and Inspection Plan for 2007/08 which outlines the External Auditor's proposed work and planned approach for the coming year.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MM

CFO: JB

Annual Audit and Inspection Letter

Barnet London Borough Council

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles.

- Auditors are appointed independently from the bodies being audited.
- The scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business.
- Auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998, the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Council

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member or officer in their individual capacity; or
- any third party.

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Our overall summary

- 1 This report provides an overall summary of the Audit Commission's assessment of the Council. It draws on the findings and conclusions from the audit of the Council, from the Corporate Assessment and inspections that have been undertaken in the last year and from a wider analysis of the Council's performance and its improvement over the last year, as measured through the Comprehensive Performance Assessment (CPA) framework.
- 2 The report is addressed to the Council, in particular it has been written for councillors, but is available as a public document for stakeholders, including members of the community served by the Council.
- 3 The main messages for the Council included in this report are:
 - The Council continues to improve well, moving from a 2 star authority to a 3 star authority this year. 29 councils across the country moved up a category this year. The use of resources assessment also improved from performing adequately to performing well (3 out of 4), with notable improvements in the value for money element.
 - Performance has been sustained across five out of the six service blocks which form part of the overall CPA framework, demonstrating continued consistency in performance. Children and young people services, environment, benefits and culture are all performing well (level 3 out of 4). Performance within adult social care remains adequate overall, (level 2 out of 4).
 - Housing is the only service block where performance deteriorated from performing well to performing adequately this year (2 out of 4). 27 per cent of Council's performed at this level in 2006 compared to 71 per cent achieving the top two ratings.
 - The Council has continued to strengthen its use of resources in all areas in particular with regard to the adequacy of General Fund balances, improvements to the control environment and the enhancement of data quality.

Action needed by the Council

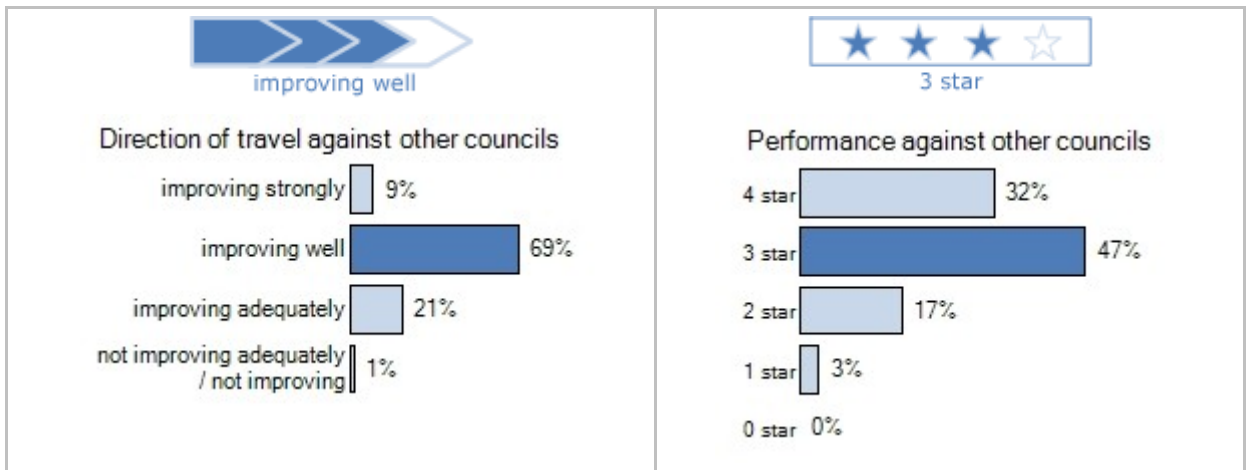
- The Council needs to ensure that the steady progress in achieving adequate General Fund balances is maintained through the 2007/08 budget setting process and beyond. This is vital in the context of tightening financial settlements and increased cost pressures in the social care environment.

- Housing along with social care for adults are the only CPA service blocks which perform adequately overall. As a 3 star authority, the Council needs to assure itself that planned improvements within housing and adult social care services are in line with its expectations and community needs.
- Whilst two thirds of comparable performance indicators improved between 2004/05 and 2005/06, this fell short of the single tier and county council average. The Council should ensure that the extent of improvement keeps pace with other similar authorities to support further positive direction of travel.

How is Barnet Council performing?

- 4 The Audit Commission’s overall judgement is that Barnet Council is improving well and we have classified Barnet Council as three stars in its current level of performance under the Comprehensive Performance Assessment. These assessments have been completed in all single tier and county councils with the following results.

Table 1



Source: Audit Commission

- 5 The detailed assessment for Barnet Council is as follows.

Our overall assessment - the CPA scorecard

Table 2 CPA scorecard

Element	Assessment
Direction of Travel judgement	Improving well
Overall	3 stars
Current performance	
Children and young people	3 out of 4
Social care (adults)	2 out of 4
Use of resources	3 out of 4
Housing	2 out of 4
Environment	3 out of 4

Element	Assessment
Culture	3 out of 4
Benefits	3 out of 4
Corporate assessment/capacity to improve	3 out of 4

(Note: 1=lowest, 4= highest)

The improvement since last year - our Direction of Travel report

- 6 Barnet Council is improving well. Overall almost two thirds of performance indicators improved in 2005/06. Performance in priority areas: education, children's services and recycling has continued to improve. Other service areas such as planning, benefits, homelessness and reducing the numbers killed and injured on the roads have also improved. Performance on decent homes, adults, crime and health was mixed but has started to improve. Benefits customer service has improved as have customer facilities, but there is more to do. The Council updated its Race Equality Scheme in 2006 and is effectively promoting social cohesion. Value for money is stronger with savings, efficiencies and clear links between investment in priorities and outcomes. The Council has a clear shared vision and plan for 2006/2016 to build 'A First Class Suburb'. This includes the regeneration of Cricklewood/West Hendon, which is proceeding to plan, with three other major schemes at an earlier stage. Capacity is increasing through improved information, communication and technology, human resources and finance projects, which are modernising the organisation. There are no significant failures in corporate governance that would prevent sustained improvement.
- 7 Informing the direction of travel this year was the corporate assessment of the Council. Overall, the corporate assessment found the Council to be performing well. A summary is provided below and the full report can be accessed via the Commission's website at www.audit-commission.gov.uk.

8 Annual Audit and Inspection Letter | How is Barnet Council performing

- 8 The assessment found strong and clear ambitions based on a good understanding of community views and needs. Ambitions strived for much more than sustaining the good quality of life in the borough and included radical improvements for more deprived communities. The corporate plan provides a robust framework for strategies, plans and service delivery. A good range of outcome based targets are driving improvement through a comprehensive performance management framework. But some targets are being missed and the framework is weakened by a lack of public monitoring and of regular scrutiny and challenge by councillors. The development of an integrated approach to customer access is at an early stage. Good political and managerial leadership is evident, although scrutiny committees are not always clear about their role. The Council is doing much to improve the way it works, although all of its actions to address earlier weaknesses are not complete.
- 9 Overall the Council is performing well in the delivery of its own ambition and priorities and contributing to the achievement of shared priorities. The assessment found a strong and integrated approach to economic development, regeneration, housing and the local environment. The Council has a good partnership approach to reducing crime and building stronger communities with some tangible successes. A number of initiatives to improve health were focussed on areas of greatest deprivation with some positive results, but joint work with the local Primary Care Trust (PCT) to develop a joint health strategy and outcome targets and measures is at an early stage. The Council's strategy for services for older people focuses on health and social care, in line with its inclusion of older people as a significant element in its 'supporting the vulnerable' priority. Good outcomes are being achieved by the Council and its partners for children and young people.

Service inspections

- 10 No Audit Commission service inspections were undertaken this year.
- 11 An important aspect of the role of the Relationship Manager is to work with other inspectorates and regulators who also review and report on the council's performance. Relationship Managers share information and seek to provide 'joined up' regulation to the Council. During the last year the Council has received the following assessments (summarised in the proceeding paragraphs) from other inspectorates.
 - A Joint Area Review of Children's Services including a contemporaneous enhanced youth service inspection.
 - A youth offending service inspection.
 - An annual performance assessment of adult social care services.
 - An annual performance assessment of benefits services.

- 12 In tandem with the corporate assessment the Council and its partners received a joint area review (JAR) of children's services. Outcomes for most children and young people in Barnet were found to be 'good'. The contribution of Council services to improving outcomes for children and young people was also found to be 'good'. In particular the assessment highlighted that data and information was used well to inform needs analysis and to shape strategic plans. The good quality leadership and determination of senior officers had contributed strongly to a rapid improvement in education and social care services, many of them from a low base. Almost all services are now good. There is a proven ability to prioritise, with especially good use of geographic mapping to translate national and other initiatives into a local context and focus. Partnership working is strong, and there is very good use of services commissioned from the voluntary sector, but the role of scrutiny in securing value for money from local services is still underdeveloped, although the partners understand what needs to be done. The capacity for further improvement is 'good'. The full report can be accessed via www.ofsted.gov.uk.
- 13 As part of the JAR an enhanced youth service inspection was also undertaken contemporaneously. The service was assessed as 'adequate' overall, providing 'satisfactory value for money'. The full report can be accessed via Ofsted's website.
- 14 A youth offending service inspection was also carried out this year which informed the JAR. Whilst no overall categorisation of performance is given, judgments are made against each of the five core areas of work of the youth offending team. The assessment found that the management and partnership arrangements, including the role and functioning of the local Board was 'excellent'. Three further core areas of work relating to the team's work in courts; with children and young people in the community; and with children and young people subject to detention and training orders were all found to be 'good'. In the last core area of work regarding victims and restorative justice, the assessment found the youth offending service to be 'adequate'. A copy of the full report can be accessed via www.inspectorates.homeoffice.gov.uk/hmiprobation/

- 15 The CSCI annual performance assessment of adult social care services found the Council to be serving 'some people well', with 'promising capacity to improve services'. The assessment is summarised below and the full performance review can be accessed via www.csci.gov.uk.
- 16 The assessment found that the Council continues to support a diverse community and some clear improvements have been made in relation to adults with learning disabilities and mental health. There is a strategic plan for further developments to shift the balance of care to more community-based provision. An extensive capital programme for adults with learning disabilities and pilot project developments for mental health are beginning to show good effect. The strategic vision for the council is well embedded at a senior level and is publicised widely. Most stakeholders understand the broad direction of future service developments and how the council intends to achieve them. Performance management and scrutiny is improving, and staff training has been supported effectively with good use of workforce development and training grant income. Partnership working has been supported with best value reviews of the voluntary sector and the council has identified where it needs to modernise its operations.
- 17 Areas for improvement were summarised as follows. Attention should be paid to the operational arrangements for physical disabilities services, and management and service capacity in this area needs to be significantly improved. Commissioning and contracting processes need strengthening, and a review of current contract arrangements should be conducted. The Audit letter for 2005 /06 raised no concerns about financial management for Adults services. However, the council needs to manage financial risks in a more robust way. Re-modelling of business processes is required and the council has identified this as a focus area for 2006/07.
- 18 The Benefit Fraud Inspectorate's (BFI) Comprehensive Performance Assessment of Barnet's Benefits Service concluded that the Council met 6 of the 12 performance measures where the Department for Work and Pensions had set a Standard, and 61 of the 65 enablers. This resulted in a performance standards score of 'good' (level 3 out of 4). A copy of the full assessment can be accessed via www.bfi.gov.uk.

Financial management and value for money

- 19 Your appointed auditor has reported separately to the Audit Committee on the issues arising from the 2005/06 audit and has provided:
- an unqualified opinion on your accounts;
 - a conclusion on your vfm arrangements to say that these arrangements are adequate; and
 - a report on the Best Value Performance Plan confirming that the Plan has been audited.
- 20 The findings of the auditor are an important component of the CPA framework described above. In particular the Use of Resources score is derived from the assessments made by the auditor in the following areas.
- Financial Reporting (including the preparation of the accounts of the Council and the way these are presented to the public).
 - Financial management (including how the financial management is integrated with strategy to support council priorities).
 - Financial Standing (including the strength of the Council's financial position).
 - Internal Control (including how effectively the Council maintains proper stewardship and control of its finances).
 - Value for money (including an assessment of how well the Council balances the costs and quality of its services).
- 21 For the purposes of the CPA your auditor has assessed the Council's arrangements for use of resources in these five areas as follows.

Table 3

Element	Assessment
Financial reporting	3 out of 4
Financial management	2 out of 4
Financial standing	2 out of 4
Internal control	3 out of 4
Value for money	3 out of 4
Overall assessment of the Audit Commission	3 out of 4

(Note: 1=lowest, 4=highest)

- 22 The Council has been successful in addressing the majority of recommendations raised in the previous year, this is evidenced in the Council moving from a level 2 overall to a level 3 overall in 2006. This represents a significant achievement. However, there remain a number of areas for which continued improvement needs to be demonstrated in 2006/07. The focus for the forthcoming year should be to ensure that all improvement areas can be demonstrated as embedded within the Council as part of the culture of the organisation.
- The Council has exhibited areas of good practice within its internal control arrangements. Specifically, the Council developed a mini SIC process whereby each service is required to sign off any residual risks and control weaknesses within the services, these are then fed into the Council's overall Statement of Internal Control.
 - There were no areas where the Council scored below minimum requirements, however there are areas which the Council may wish to address to ensure that scoring improves to level 3 in the areas where level 2 has been currently met.
 - The Council has made a clear commitment to data quality and there are a number of areas in which significant improvements have been made driven by an overall focus at senior management level. However, the Council lacks a clear strategic framework for future progress in this area, and would benefit from a framework for regular, formal monitoring of data quality within the corporate key performance indicator set.
 - As part of the mandatory audit work on CPA indicators we revisited two areas where significant problems were incurred in the previous year: human resources and payroll, and adult social services. It was pleasing to note that each of these areas had sufficiently improved to an adequate level within their performance management arrangements.
- 23 Our audit of the Council's Best Value Performance Plan confirmed that in all significant respects the Council prepared and published its Plan in accordance with the law and regulations governing it. Accordingly we issued an unqualified audit opinion on the Plan. We made no formal recommendations made to either the Audit Commission or the Secretary of State in respect of the Plan.

Conclusion

- 24 This letter has been discussed and agreed with the Chief Executive. A copy of the letter will be presented at the audit committee on 28 June 2007.
- 25 The Council has taken a positive and constructive approach to our audit and inspection I would like to take this opportunity to express my appreciation for the council's assistance and co-operation.

Availability of this letter

- 26 This letter will be published on the Audit Commission's website at www.audit-commission.gov.uk, and also on the Council's website.

Claire Bryce-Smith
Relationship Manager

Audit and Inspection Plan

April 2007



Audit and Inspection Plan

Barnet London Borough Council

Audit 2007/2008

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Introduction

- 1 This plan has been developed by the Relationship Manager and the appointed auditor. It sets out the audit and inspection work that we propose to undertake for the 2007/08 financial year. The plan is based on the Audit Commission's risk-based approach to audit planning and the requirements of Comprehensive Performance Assessment (CPA). It reflects:
 - audit and inspection work specified by the Audit Commission for 2007/08;
 - current national risks relevant to your local circumstances; and
 - your local risks and improvement priorities.
- 2 Your Relationship Manager will continue to help ensure further integration and co-ordination with the work of other inspectorates.
- 3 As we have not yet completed our audit for 2006/07, the audit planning process for 2007/08, including the risk assessment, will continue as the year progresses, and the information and fees in this plan will be kept under review and updated as necessary.

Responsibilities

- 4 We comply with the statutory requirements governing our audit and inspection work, in particular:
 - the Audit Commission Act 1998;
 - the Local Government Act 1999 (best value inspection and audit); and
 - the Code of Audit Practice.
- 5 The Code of Audit Practice (the Code) defines auditors' responsibilities in relation to:
 - the financial statements (including the Statement on Internal Control (SIC)); and
 - the audited body's arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 6 The Audit Commission's Statement of responsibilities of auditors and of audited bodies sets out the respective responsibilities of the auditor and the Council. The Audit Commission has issued a copy of the Statement to every audited body.
- 7 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our audit work is undertaken in the context of these responsibilities.

CPA and inspection

- 8 The Audit Commission's CPA and inspection activity is underpinned by the principle of targeting our work where it will have the greatest effect, based upon assessments of risk and performance.
- 9 The Council's CPA category is therefore a key driver in the Commission's inspection planning process. For CPA 2006, the Council was categorised as three stars.
- 10 We have applied the principles set out in the CPA framework, CPA – the Harder Test, recognising the key strengths and areas for improvement in the Council's performance.
- 11 Strengths in the Council's performance include:
 - strong and clear shared ambitions based on a good understanding of community views and needs;
 - good political and managerial leadership;
 - a clear outcome focussed corporate plan which provides a robust framework for strategies, plans and service delivery;
 - a comprehensive performance management framework;
 - sustained consistency in performance across five out of the six service block;
 - a strong focus on improving the quality of the Council's internal control arrangements; and
 - a commitment to strengthening the Council's financial position and a rigorous focus on delivering year-on-year savings.
- 12 Areas for improvement in the Council's performance include:
 - performance of housing services which is currently rated as adequate (level 2 out of 4);
 - the extent of improvement in performance indicators to ensure that these at least keep pace with other similar authorities;
 - clarifying and strengthening the role and operation of the scrutiny function in: the performance of services; providing effective challenge to and scrutiny of Cabinet; and in making the best use of the role of councillors as community representatives and advocates; and
 - improving the consistency of the day-to-day responsiveness of the Council's services to service users.
- 13 On the basis of our planning process we have identified where our inspection activity will be focused for 2007/08 as follows.

Table 1 Summary of inspection activity

Inspection activity	Reason/impact
Relationship Manager (RM) role	To act as the Commission’s primary point of contact with the Council and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Direction of travel (DoT) assessment	An annual assessment, carried out by the RM, of how well the Council is securing continuous improvement. The DoT label will be reported in the CPA scorecard alongside the CPA category. The DoT assessment summary will be published on the Commission’s website.
ALMO re-inspection	Our Housing Inspectorate will carry out a re-inspection of your ALMO, Barnet Homes.

- 14 In addition, for information only, the Commission for Social Care Inspection will be undertaking an inspection of Physical and Sensory Disabilities this year. This inspection activity sits outside of this audit and inspection plan.

Work under the Code of Audit Practice

Financial statements

- 15 We will carry out our audit of the financial statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB).
- 16 We are required to issue an opinion on whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council as at 31 March 2008 and its income and expenditure for the year.
- 17 We are also required to review whether the SIC has been presented in accordance with relevant requirements, and to report if it does not meet these requirements or if the SIC is misleading or inconsistent with our knowledge of the Council.

Use of resources

Value for money conclusion

- 18 The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. The Code also requires auditors to have regard to a standard set of relevant criteria, issued by the Audit Commission, in arriving at their conclusion.
- 19 In meeting this responsibility, we will review evidence that is relevant to the Council's corporate performance management and financial management arrangements. Where relevant work has been undertaken by other regulators we will normally place reliance on their reported results to inform our work.
- 20 We will also follow up our work from previous years to assess progress in implementing agreed recommendations.

Use of resources assessment

- 21 The Audit Commission has specified that auditors will complete a use of resources assessment for 2007/08. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Council's priorities and improve services.
- 22 The work required to arrive at the use of resources assessment is fully aligned with that required to arrive at the auditor's value for money conclusion.

- 23 We will arrive at a score of 1 to 4, based on underlying key lines of enquiry, for each of the following themes:

Theme	Description
Financial reporting	<ul style="list-style-type: none"> • Preparation of financial statements. • External reporting.
Financial management	<ul style="list-style-type: none"> • Medium-term financial strategy. • Budget monitoring. • Asset management.
Financial standing	<ul style="list-style-type: none"> • Managing spending within available resources.
Internal control	<ul style="list-style-type: none"> • Risk management. • System of internal control. • Probity and propriety.
Value for money	<ul style="list-style-type: none"> • Achieving value for money. • Managing and improving value for money.

- 24 We will report details of the scores and judgements made to the Council. The scores will be accompanied, where appropriate, by recommendations of what the Council needs to do to improve its services.
- 25 The auditor's scores are reported to the Commission and are used as the basis for its overall use of resources judgement for the purposes of CPA.

Data quality

- 26 The Audit Commission has specified that auditors will be required to undertake audit work in relation to data quality. This is based on a three-stage approach covering:
- stage 1 - management arrangements;
 - stage 2 - completeness check; and
 - stage 3 - risk-based data quality spot checks of a sample of performance indicators.
- 27 The work at stage 1 will link to our review of the Council's arrangements to secure data quality as required for our value for money conclusion and, together with the results of stage 2, will inform the risk assessment for the detailed spot check work to be undertaken at stage 3. The results of the work at stage 3 will inform the Commission's CPA assessment.

- 28 Our fee estimate reflects an assessment of risk in relation to the Council's performance indicators. This risk assessment may change depending on our assessment of your overall management arrangements at stage 1 and we will update our plan accordingly, including any impact on the fee.

Best value performance plan

- 29 We are required to carry out an audit of your best value performance plan (BVPP) and report on whether it has been prepared and published in accordance with legislation and statutory guidance.

Assessing risks

- 30 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities and reflecting this in the audit fees. It also means making sure that our work is co-ordinated with the work of other regulators, and that our work helps you to improve.
- 31 Our risk assessment process starts with the identification of the significant financial and operational risks applying at the Council with reference to:
- our cumulative knowledge of the Council;
 - planning guidance issued by the Audit Commission;
 - the specific results of previous and ongoing audit work;
 - interviews with Council officers;
 - liaison with internal audit; and
 - the results of other review agencies' work where relevant.
- 32 We have not included a risk assessment for our audit of the financial statements as many of the specific risks may not become apparent until after we have completed our 2006/07 audit. We will issue a separate opinion audit plan for our audit of the financial statements in November 2007. At this stage we are aware of the following risks that are likely to impact on our audit of the financial statements.
- There are significant proposed adjustments to the current accounting and disclosure arrangements of pension schemes. It is likely that this will impact administrating authorities to create the pension fund as a stand alone entity with a requirement to prepare their own accounts and annual report. We will produce a separate plan for the Pensions audit to reflect these changes.
 - There are changes expected as a result of the 2006 Statement of Recommended Practice (SORP) that will apply to the 2007/08 accounts. Primarily this will involve the introduction of the revaluation reserve and a capital adjustment account to replace the fixed asset restatement account and the capital financing account. Consideration will need to be paid to the changes to ledgers and fixed asset registers to accommodate the amendments.
 - The 2007 SORP is under consultation and it expected that there will be a number of presentation and disclosure adjustments that will impact on the 2007/08 accounts, including some detailed changes to children's services or meeting new priorities such as the smoking ban.

- The Council are able to participate in the second phase of the Local Area Agreements (LAA), which is a three year agreement between central government and a Local Strategic Partnership (LSP). There are likely to be accounting considerations for the issuance of grants and any resultant assets or liabilities created as a result.
 - The Council is expecting to complete a number of transactions relating to the disposal of the Hendon site, as a result there will be accounting implications to consider.
- 33** Our fee estimate for 2007/08 is based on the assumption that the current standard of working papers will be maintained and that internal audit will complete their planned work on key information systems to the agreed quality by 30 April 2008 and that the accounts will be prepared and fully supported by working papers 30 June 2008.
- 34** For each of the significant risks identified in relation to our use of resources work, we consider the arrangements put in place by the Council to mitigate the risk, and plan our work accordingly.
- 35** Our initial risk assessment for use of resources work is provided in Appendix 1. This will be updated through our continuous planning process as the year progresses.

Work specified by the Audit Commission

Whole of government accounts (WGA)

- 36 We will be required to review and report on your WGA consolidation pack in accordance with the approach agreed with HM Treasury and the National Audit Office which is proportionate to risk.

National Fraud Initiative

- 37 The Council participates in the National Fraud Initiative which is the Audit Commission's computerised data matching exercise designed to detect fraud perpetrated on public bodies. This work will be carried out by an individual appointed to assist in the audit of the Council's accounts (in accordance with section 3(9) of the Audit Commission Act 1998).
- 38 A fee of £1,300 for this work sits outside of the main audit fee and will be invoiced separately by the Audit Commission¹.

¹ For comparative purposes the fee in 2006/07 was £1,250.

Voluntary improvement work

- 39** Under section 35 of the Audit Commission Act 1998, the Commission may undertake voluntary improvement work at the request of the audited body. We are not proposing to do any voluntary improvement work at Barnet Council during 2007/08.

Certification of claims and returns

40 We will continue to certify the Council's claims and returns on the following basis:

- claims below £100,000 will not be subject to certification;
- claims between £100,000 and £500,000 will be subject to a reduced, light-touch certification; and
- claims over £500,000 will be subject to a certification approach relevant to the auditor's assessment of the control environment and management preparation of claims. A robust control environment would lead to a reduced certification approach for these claims.

The audit and inspection fee

- 41** The details of the structure of scale fees are set out in the Audit Commission's work programme and fee scales 2007/08. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 42** The total indicative fee for audit and inspection work included in this audit and inspection plan for 2007/08 is £447,544 which compares with the planned fee of £558,025 for 2006/07.
- 43** Further details are provided in Appendix 2 which includes a breakdown of the fee; specific audit risk factors; the assumptions made when determining the audit fee, for example, the timeliness and quality of draft accounts presented for audit and the supporting working papers; specific actions Barnet Council could take to reduce its audit and inspection fees; and the process for agreeing any changes to the fee. The fee includes all work identified in this plan unless specifically excluded.
- 44** In addition we estimate that we will charge approximately £90,000 for the certification of claims and returns.
- 45** As indicated in paragraphs 2 and 35, the audit planning process will continue as the year progresses and it is likely that there will be some changes to our planned work and hence to the indicative fee quoted in paragraph 43 above. Any changes to the fee will be agreed with you.

Other information

The audit and inspection team

- 46 The key members of the audit and inspection team for the 2007/08 audit are shown in the table below.

Table 2

Name	Contact details	Responsibilities
Claire Bryce-Smith Relationship Manager	c-bryce-smith@audit-commission.gov.uk	The primary point of contact with the authority and the interface at the local level between the Commission and the other inspectorates, government offices and other key stakeholders.
Richard Tremeer Audit Engagement Lead, RSM Robson Rhodes	Richard.Tremeer@rsmi.co.uk	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive and audit committee.
Maryellen Salter Audit Manager	Maryellen.Salter@rsmi.co.uk	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance.
Martin Ellender Performance Lead	Martin.Ellender@rsmi.co.uk	Responsible for the delivery of elements of the use of resources work including the value for money theme of the use of resources assessment, and data quality work.

Independence and objectivity

- 47 We are not aware of any relationships that may affect the independence and objectivity of the Appointed Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you.
- 48 We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 3.

Quality of service

- 49 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact the Relationship Manager or Appointed Auditor in the first instance. Alternatively you may wish to contact the London Head of Operations, Les Kidner.
- 50 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet, 'Something to Complain About' which is available from the Commission's website or on request.

Planned outputs

- 51 Our reports will be discussed and agreed with the appropriate officers before being issued to the Audit Committee.

Table 3

Planned output	Indicative date
Data Quality Report	September 2008
Interim Audit Memorandum	June 2008
Annual Governance Report	30 September 2008
Opinion on the Financial Statements and Value for Money Conclusion	30 September 2008
Final Accounts Memorandum (to the Director of Finance)	October 2008
Other Audit Projects	By March 2008
Use of Resources Report	October 2008

18 Audit and Inspection Plan | Other information

Planned output	Indicative date
Direction of Travel Assessment	February 2008
ALMO Inspection Report	December 2007
Annual Audit and Inspection Letter	February 2008
BVPP Report	31 December 2008

Appendix 1 – Initial risk assessment – use of resources

Table 4

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council have identified a number of significant risks and control weakness through their mini SIC process that incorporates each service area.</p>	<p>The Council have various action plans in place to address each significant risk and require each head of service to monitor. Internal audit are also to conduct a review of the supporting documentation held by services to support their mini SIC.</p>	<p>There is a risk that the Council will not devote sufficient resources to reduce risks to an acceptable level.</p>	<p>We will monitor action plans that the Council has to address risks arising from the mini SIC process. We will review internal audit’s report on the mini SIC process. We will continue our programme of IT reviews linked to aspects of the Council’s developing IT infrastructure and the control issues associated with this area.</p>	<p>UoR KLOE 4.1 – Managing significant business risks.</p>
<p>The Council have a PFI scheme in place to replace their entire street lighting furniture. We have reviewed the accounting treatment of this in previous financial years however the arrangement may not result in value for money.</p>	<p>We are aware that there are contract monitoring procedures in place.</p>	<p>There is a risk that the PFI will not continue to provide value for money.</p>	<p>We will monitor the Council’s progress with the PFI.</p>	<p>UoR KLoE 5.2 – managing and improving value for money.</p>

20 Audit and Inspection Plan | Appendix 1 – Initial risk assessment – use of resources

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council have entered a Local Area Agreement, however the agreement will need to be reviewed in the context of some challenging relationships expected with some partners and funding uncertainties. There is a risk that the LAA will fail to deliver the objectives and provide value for money.</p>	<p>The Council are reviewing arrangements.</p>	<p>The LAA will not offer value for money.</p>	<p>We will review the LAA arrangements with a diagnostic tool provided by the Audit Commission.</p>	<p>UoR KLoE 5.2 – managing and improving value for money.</p>
<p>There is a risk that the ALMO in charge of Housing services is failing to deliver its objectives and offer value for money.</p>	<p>The Council are currently reviewing its arrangements and an inspection of the ALMO is expected in late 2007.</p>	<p>The ALMO will not offer value for money.</p>	<p>We will consider adequacy of the arrangements with the outcome of the ALMO inspection to ensure continued value for money.</p>	<p>UoR KLoE 5.2 – managing and improving value for money.</p>
<p>With the introduction of direct payments and new budgetary arrangements within the adult social services, there is an internal control and value for money risk if the arrangements are not successful.</p>	<p>The Council are developing arrangements.</p>	<p>There is a risk of poor internal control and value for money.</p>	<p>We will seek to review arrangements once they have been embedded within the Council.</p>	<p>UoR KLoE 5.2 – managing and improving value for money. UoR KLoE 4.2 – maintaining and sound system of internal control.</p>

Significant risks identified	Mitigating action by audited body	Residual audit risk	Action in response to residual audit risk	Link to auditor’s responsibilities
<p>The Council are required to restructure children’s services as required by legislation. There is a risk that these arrangements may not meet the requirements.</p>	<p>The Council have set up the Children’s services in accordance with statutory requirements and are reviewing performance.</p>	<p>The risk is that the arrangements are not successful in providing value for money.</p>	<p>We will seek to review arrangements in late 2007/08 to assess effective integration of the service and that a positive outcome is being maintained.</p>	<p>UoR KLoE 5.2 – managing and improving value for money.</p>
<p>The recent corporate assessment identified scope for improvement in the Council's scrutiny arrangements</p>	<p>The Council has continued to develop its performance management framework and its processes for member overview and scrutiny</p>	<p>Scrutiny of the Council's performance by back bench and opposition members may not provide sufficient challenge to performance.</p>	<p>We will review the Council's current arrangements for scrutiny and develop recommendations as appropriate. This will specifically cover:</p> <ul style="list-style-type: none"> • effectiveness of the scrutiny function; • challenge of members; • how the performance management framework informs members; and • training and commitment to scrutiny. 	<p>UoR KLoE 5.2 - managing and improving value for money</p>

Appendix 2 – Audit and inspection fee

- 1 Table 5 provides details of the planned audit and inspection fee for 2007/08 with a comparison to the planned fee for 2006/07.

Table 5

Audit area	Planned fee 2007/08 £	Planned fee 2006/07 £
Audit		
Financial statements	140,000	140,000
Use of resources (including BVPP)	222,160	280,000
Data quality and PI's	54,000	-
Whole of government accounts	4,840	-
Total audit fee	421,000	420,000
Inspection		
Relationship management/ Direction of Travel	26,544 ²	16,721
Corporate inspection	N/A	121,304
Total inspection fee	26,544	138,025
Total audit and inspection fee	447,544	558,025
Certification of claims and returns	90,000	100,000
Total	537,544	658,025

- 2 The Audit Commission scale fee for Barnet Council is £403,000. The fee proposed for 2007/08 is + 4 per cent compared to the scale fee and is within the normal level of variation specified by the Commission.

² This fee is set nationally. The fee in 2006/07 represented a substantial reduction from the national fee due to the concurrent corporate assessment, enabling efficiencies to be employed in undertaking the DOT that year.

- 3 The Audit Commission has the power to determine the fee above or below the scale fee where it considers that substantially more or less work is required than envisaged by the scale fee. The Audit Commission may, therefore, adjust the scale fee to reflect the actual work that needs to be carried out to meet the auditor's statutory responsibilities, on the basis of the auditor's assessment of risk and complexity at a particular body.
- 4 It is a matter for the auditor to determine the work necessary to complete the audit and, subject to approval by the Audit Commission, to seek to agree an appropriate variation to the scale fee with the Council. The Audit Commission expects normally to vary the scale fee by no more than 30 per cent (upwards or downwards). This fee then becomes payable.
- 5 The fee (plus VAT) will be charged in according to the usual arrangements.

Specific audit risk factors

- 6 In setting the audit fee we have taken into account the following specific risk factors:
 - audit fees are being uplifted by 2.75 per cent for inflation;
 - our 2006/07 plan took account of the fact that we relied on the corporate assessment as part of our code of practice audit;
 - the Council's use of resources judgement improved from 2 to 3 in 2006.
 - there has been a transfer of the pension fund to an individual plan which will be issued in due course; and
 - the significant impact of the 2006 and 2007 SORP on the Council's accounting arrangements.

Assumptions

- 7 In setting the fee, we have assumed that:
 - the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2006/07;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets the appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - good quality working papers and records will be provided to support the financial statements;

- requested information will be provided within agreed timescales;
 - prompt responses will be provided to draft reports; and
 - additional work will not be required to address questions or objections raised by local government electors.
- 8 Where these assumptions are not met, we will be required to undertake additional work, which is likely to result in an increased audit fee. The fee for the audit of the financial statements will be re-visited when we issue the opinion audit plan.
- 9 Changes to the plan will be agreed with you. These may be required if:
- new residual audit risks emerge;
 - additional work is required of us by the Audit Commission or other regulators; and
 - additional work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Specific actions Barnet Council could take to reduce its audit and inspection fees

- 10 The Audit Commission requires its auditors to inform a council of specific actions it could take to reduce its audit and inspection fees. We have identified the following actions Barnet Council could take:
- If the Council met level 4 on KLoE 1.1 for producing annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers there would be scope for reduced fees. This would include having all workpapers electronically available, cross referring to the statement of accounts, and a detailed analytical review available at the start of the audit process.

Process for agreeing any changes in audit fees

- 11 If we need to make any significant amendments to the audit fee during the course of this plan, we will firstly discuss this with the Chief Executive/Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Audit Committee.

Appendix 3 – Independence and objectivity

- 1 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of my appointment. When auditing the financial statements auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 2 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 3 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised.
- 4 The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the audit committee. The auditor reserves the right, however, to communicate directly with the authority on matters which are considered to be of sufficient importance.
- 5 The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

6 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows:

- appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the audit plan as being 'additional work' and charged for separately from the normal audit fee;
- auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission;
- the District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years;
- the District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.